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Cultural Distance and its Asymmetric Effect on the Choice of Entry Mode

문화적 거리의 비대칭성이 기업의 해외시장진입방식에 미치는 영향

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Abstract

Cultural Distance and its Asymmetric Effect on the Choice of Entry Mode

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Cultural distance construct has been widely used as a predictor of a firm's entry mode choice in international business studies. However, the construct is criticized to be inaccurate in capturing cultural differences between different countries as over aggregation of cultural dimensions could lead to false readings regarding meaningful differences among different cultural dimensions.

This study purports to test the influence of cultural distance on entry mode by using alternative measurement of cultural distance with transaction cost explanations. As a departure from conventional conceptualization and measurement of cultural distance, cultural distance's asymmetrical effect is tested to investigate whether positive and negative differences between home and host country culture could indicate different probability of a firm's choice of entry mode.

To test asymmetric effect of cultural distance on entry mode choice, Hofstede's cultural dimensions were measured individually in this research. To be specific, power distance, individualism, masculinity and uncertainty avoidance were employed to test culture's asymmetric influence on a firm's ownership structure strategy of foreign subsidiaries.

Hypotheses were tested with a sample of 906 overseas subsidiaries of Korean MNEs (KOSPI listed manufacturing firms). Empirical results gained from binomial logistic regression confirm that out of four cultural dimensions employed in this article, cultural distance of individualism has an impact on a firm's choice of entry mode.

Keyword:

Cultural distance, Cultural dimensions, Cultural distance asymmetry, Entry mode.

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Table of Contents

List of Figures and Tables

Figures

Tables

Chapter 1: Introduction

Since the Kogut and Singh's development of cultural distance index, the measurement of investor's home country culture and host country's culture differences has been widely used in the field of international management studies. Specifically, the cultural distance construct had been commonly used in studies predicting the choice of mode of entry into foreign markets. However, the cultural distance measurement's assumption of equivalence (Harzing, 2004; Shenkar, 2001) and assumption of symmetry (Shenkar, 2001) are criticized to be problematic in correctly capturing cultural differences.

Shenkar (2001) suggested that these invalid properties of the cultural distance construct could be the reason behind the conflicting empirical results of the influence of culture on firm's choice of entry mode. This article purports to address the criticisms concerning the concept of cultural distance measurement and provide empirical results for alternative measurement of cultural distance. To be specific, this article proposes that Hofstede's four cultural attributes, power distance, individualism, masculinity and uncertainty avoidance will individually affect firm's choice of entry mode and furthermore, that the distance effect will be asymmetric suggesting that a given cultural distance may demonstrate either a high or low probability of a firm choosing a wholly owned mode of entry (or a joint venture mode of entry).

This article is organized as follows. In the next section, a review of culture-entry mode studies will be presented and in the theory and hypothesis part, properties and invalid assumptions regarding cultural distance construct will be discussed along with transaction cost influence on firm's entry mode choice. Data description, source and culture measurement method will be described in the methodology part. Lastly, empirical results will be discussed in the result section and implications and limitations will be presented in the discussion section.

Chapter 2: Literature Review

In the FDI literature, especially in the area of national culture-entry mode studies, cultural distance construct has been widely used to measure the cultural differences between investing firm's home country culture and the host country culture. Kogut and Singh initiated the measure of cultural difference by combining four cultural dimensions (power distance; individualism; masculinity; uncertainty avoidance) developed by Hofstede in an aggregated manner. Kogut and Singh's index has been used in many articles that investigated the influence of home country-host country cultural distance on firm's mode of entry (e.g. Kim & Park, 2009; Lee & Bang, 2008; Park & Son, 2003; Chen & Hu, 2002; Luo, 2001; Brouthers & Brouthers, 2001; Gatignon & Anderson, 1998; Hennart & Larimo, 1998; Barkema & Vermeulen, 1997; Padmanabhan & Cho, 1996; Pan, 1996; Anand & Delios, 1997; Agarwal, 1994; Erramilli, 1991; Kogut & Singh, 1988).

While most of the articles covering cultural distance construct use transaction cost theory as a theoretical lens, there is conflicting results on the direction of cultural distance's effect on a firm's choice of entry mode. Some suggest that as the cultural distance between the home and the host country increases, firms prefer joint ventures over wholly owned subsidiaries as they try to utilize local firms' knowledge to overcome high organizational and administrative cost perceptions as well as additional costs associated with managing more diverse employee expectations (Brouthers & Brouthers, 2001). Kim and Hwang (1992), Gatignon and Anderson (1988) and Lee and Bang (2008) have reported that as firms enter culturally distant countries, investing firms would prefer joint ventures with local firms.

On the other hand, other researchers suggest that investing firms would prefer high control over their subsidiaries (i.e. wholly owned subsidiary) in order to reduce dependence upon agents whose actions are poorly understood (Shenkar, 2001). Anand and Delios (1997), Pan (1996), Padmanabhan and Cho (1996) and Kim and Park (2009) found supports for the positive relationship between cultural distance and wholly owned mode of entry.

While all articles listed above uses Kogut and Singh's cultural distance index, Shenkar (2001) has suggested that invalid assumptions hidden in the measurement of Kogut and Singh's cultural distance could be one of the reasons behind the conflicting results. This article aims to focus on the two of Shenkar's criticism on the cultural distance construct: 'The assumption of cultural distance symmetry' and 'The assumption of equivalence'.

Shenkar (2001) indicated that Kogut and Singh's measurement of cultural distance is problematic due to its invalid assumption of equivalence as the aggregate measurement may provide false readings regarding meaningful cultural differences of Hofstede's four individual cultural dimensions. Harzing (2004), in his review article of the role of culture in entry mode studies, has stressed the importance of employing each dimensions in culture studies by arguing that researchers should be careful of whether it is cultural distance as such or a difference in specific dimensions of culture that is most important for the phenomenon under investigation. In addition, he posits that all authors have used cultural distance as a composite concept and this means that equal cultural distance scores could be found for sets of countries that differ on completely different aspects of culture and this could be problematic since different dimensions of culture could have a differential impact on entry mode choice.

Barkema and Vermeulen (1997) were the first to use each cultural dimension in investigating cultural distance and international joint venture incidence. They have found that uncertainty avoidance and long-term orientation (later added 5th dimension) differences are detrimental for international joint ventures. Although Barkema and Vermeulen have initiated the research that employs each of the culture dimensions in entry mode research, there is still a gap in this area of study as empirical results concerning Asia context (investing firm's culture) is still missing and they have measured the differences in absolute values not reflecting asymmetric properties of cultural distance. Moreover, Barkema and Vermeulen have predicted that only distances of uncertainty avoidance and long term orientation are negatively associated with international joint venture incidence. In this study, it is expected that all four dimensions will have influence on firm's choice of entry mode.

Conventional composite cultural distance measurement aggregates four different cultural dimensions (power distance, individualism, masculinity and uncertainty avoidance) in absolute terms. As cultural distances are measured in absolute terms, the directional differences are neglected. For example, over aggregated composite distance cannot explain the different case of a firm from low power distant country investing in high power distant cultures and investments from high power distant country to low power distant cultures while they have the same difference in absolute figures.

Effect of cultural distance asymmetry had been proven empirically in overseas subsidiary control. Brock et al. (2008), in their article investigating the influence of national culture on expatriate deployment, they have found an evidence for their suggestion that a given cultural difference can indicate either a high or low probability of assigning an expatriate depending on asymmetries hidden to traditional cultural distance measures. In detail, they suggested that investing firms perceive threat to their subsidiaries differently according to positive and negative cultural dimension differences.

As illustrated above, the conventional cultural distance measurement developed by Kogut and Singh has received much criticism for its hidden invalid assumptions. However, it is still being used widely as a culture difference measurement despite of its weaknesses. This article, in a departure from conventional cultural distance–entry mode researches, purports to employ different approach on measuring the cultural distance by using distances of each of the four culture dimension to correctly measure cultural differences as an effort to deviate from conventional unidimensional approach. Moreover, this article also aims to investigate the asymmetric effects of each dimension that are permitted owing to the separate measurement of cultural dimensions with empirical results gained from Korean FDI cases.

Chapter 3: Theory and Hypothesis

Transaction cost theory suggests that cost is expected in joint ventures due to partner's opportunistic behaviours (Hennart, 1991; Gatignon & Anderson, 1988). Opportunism results when a firm takes advantage of the partner firm's dependency by committing free–riding or dissemination of technology (Gatignon and Anderson, 1988). Hence, a partner's potential opportunistic behaviours may become a threat to investing firm's subsidiaries. Transaction cost theory posits that when the cost of safeguarding against opportunistic behaviour of partner firms are high, then investing firms will prefer wholly owned subsidiary over joint ventures (Zhao et al., 2004; Hill and Kim, 1988; Madhok, 1997).

While cultural distance as in its composite index form is widely used as a proxy for uncertainty, four cultural attributes that constitute cultural distance could also have individual influences (Zaheer et al., 2012; Barkema, Shenkar, Vermeulen and Bell, 1997; Tse, Pan and Au, 1997; Eramiili, 1996; Shane, 1994). Specifically, Doney et al. (1998) have suggested that each cultural dimensions (power distance, masculinity, individualism and uncertainty avoidance) affect a society's likelihood of opportunism as each cultural dimension's traits affect levels of trust in a society. Thus, differences in each cultural dimension could independently increase the transaction costs when firms are investing in culturally distant countries.

Hofstede's four dimensions of cultural dimensions are employed in this article (Hofstede, 1994): Power Distance (measures the extent to which the less powerful members of organizations and institutions accept and expect that power is distributed unequally); Individualism (measures the extent to which collective or individual values and interests are emphasized in a society); Masculinity (measures the extent to which masculine values: assertiveness and competition or feminine values: modesty and caring is emphasized in a society); Uncertainty Avoidance (measures the degree of a society's tolerance for uncertainty and ambiguity). In this article, it is assumed that differences in each of the four culture dimensions will bear investing countries expected costs (including the costs of cooperation) when entering foreign markets.

As an extension to the cultural distance effect, this article proceeds to build upon the cultural distance–entry mode effect by introducing cultural distance asymmetric effect. Zaheer et al. (2012) have also suggested that testing of distance influence in both positive and negative directions may have different meanings. Hence, in a departure from prior researches, I suggest that at different cultural distance values (either positive or negative), likelihood of a firm choosing a wholly owned mode of entry may differ. Investing firms will perceive potential threat differently according to the relative position of home country culture compared host country culture. (Brock et al., 2008). Namely, the amount to which investing firms perceive transaction costs due to potential opportunism may vary according different situations: when host country is higher in certain cultural dimensions; when host country is lower in certain cultural dimensions. Meanwhile, the composite distance cannot explain the different case of a firm from low power distant country investing in high power distant cultures and investments from high power distant country to low power distant cultures. It lacks justifications and reasons to believe that the two cases are the same.

When host country of a Korean firm's subsidiary is higher in power distance than Korea, the parent firm may perceive its subsidiary to experience potential opportunism. This is because high power distant countries lack interpersonal trust where members of such society are less likely to trust one another and have a weak sense of obligation to others that could result in more likelihood of opportunistic behaviours (Shane, 1993). On the other hand, when a Korean firm invests in lower power distant country, it may view its subsidiary as relatively non-threatening, and thus would be less likely to perceive potential opportunism, mitigating the need for higher control of the subsidiary. It is expected that when entering higher power distant country, firms are more likely to enter the country in a wholly owned mode of entry while joint venture mode of entry is more likely when entering lower power distant country.

For individualistic culture, society’s agents are subject to opportunistic behaviours as individual self-serving behaviour is more likely than pursuing group goals (Doney et al., 1998). Hence, Korean firm may view its subsidiary to have potential opportunism and choose to acquire higher control over the subsidiary in order to curb partner’s potential opportunistic behaviours. Therefore, it is expected that when firms are entering low individualism countries, they will more likely to choose joint venture mode of entry and they will more likely to choose wholly owned mode of entry when entering high individualism countries.

Since high masculinity society’s trait is emphasizing results over relationships, opportunistic behaviour is more likely in high masculinity societies (Done et al., 1998). Members of such society are more likely to put results as a priority over relationships with one another and engage in opportunistic behaviours. Thus, when a Korean firm is investing in high masculinity societies, it may perceive alienation and potential opportunism in their subsidiary and would pursue higher control of the subsidiary. In the opposite case, where a firm is investing in lower masculinity countries, it may view its subsidiary as relatively non-threatening, mitigating the need for higher control over the subsidiary.

In the case of uncertainty avoidance, low uncertainty avoidance society do not fear the future and tolerate risk easily and thus such society is willing to sever existing relationships and enter into relationships with new partners which suggests that for low uncertainty avoidance societies, cost of opportunistic behaviour is low (Doney et al., 1998). Therefore, potential opportunism is more likely in low uncertainty avoidance societies and Korean firms investing in such countries may view their subsidiaries to have potential opportunism and choose wholly owned mode of entry. On the other hand, high uncertainty society perceives change as a risk and thus has strong resistance to change (Kale & Barnes, 1992; Doney et al., 1998). For such societies, likelihood of opportunistic behaviour is less likely because doing so would endanger continuation of the relationship which then results in change. When entering high uncertainty avoidance countries, Korean firms may view their subsidiaries as relatively non-threatening as opportunistic behaviours are less likely in such societies.

Evidence also suggests that there is an asymmetric effect of cultural distance: when firms from low cultural dimension invest in countries with relatively higher cultural dimension, they may less likely to perceive alienation and potential opportunism, mitigating the need for higher control and vice versa (Brock et al., 2008).

Based on the above discussions it is hypothesized that:

> **Hypothesis 1a:** The higher the power distance of host country is compared to that of home country, the more likely a firm is to choose wholly owned modes of entry.

> **Hypothesis 1b:** The higher the individualism of host country is

compared to that of home country, the more likely a firm is to choose wholly owned modes of entry.

Hypothesis 1c: The higher the masculinity of host country is compared to that of home country, the more likely a firm is to choose wholly owned modes of entry.

Hypothesis 1d: The higher the uncertainty avoidance of host country is compared to that of home country, the more likely a firm is to choose joint venture modes of entry.

Chapter 4: Methodology

4.1 Sample and Data

Data used in this article is from the 2016 Overseas Korean Business Directory published by KOTRA (Korea Trade-Investment Promotion Agency). The directory provides detailed information concerning subsidiaries of Korean firms that are operating overseas. Financial data of parent firms (such as firm size, R&D spending and advertisement spending) were obtained from KIS-VALUE database. From the original data set foreign direct investment cases that satisfy following conditions were selected:

① Parent firm is listed in KOSPI

② Parent is a manufacturing firm (Firms that belong to code [C] in Korean Standard Industrial Classification)

③ Subsidiaries which are located in countries where Hofstede's culture dimension values are available.

④ Parent firms that close account on December.

⑤ Financial data can be obtained via KIS−VALUE.

In the 2016 Overseas Korean Business Directory, 1332 cases of foreign direct investment of KOSPI companies were identified in countries where culture dimension values were available. Moreover, the number of overseas subsidiaries whose parents belong to code (C) in Korean Standard Industrial Classification were 928. From the sample, 21 cases were excluded as their parent firms do not close account on December. Moreover, 1 case was removed from the sample as data of entry year was missing.

The final sample includes 906 overseas subsidiaries of 211 Korean parent firms. Overseas subsidiaries are located in 51 countries.

4.2 Variables

4.2.1. Dependent Variable

The dependent variable in this article is entry mode. Following prior researches on entry mode, international joint venture (IJV) is coded 0 and international wholly owned subsidiary (IWOS) is coded 1. In this article, IWOS and IJV classification followed the classification standard of Overseas Korean Business Directory.

4.2.2. Independent Variables

Cultural distance

Distances of power distance (PD_A), individualism (IDV_A), masculinity (MAS_A) and uncertainty avoidance (UA_A) were employed in this article. The distance was measured by subtracting home country culture dimension score from the host country culture dimension score (Host country culture dimension score – Home country culture dimension score) to test the asymmetric property of the distance. Measurement of the distance follows the one used in Brock et al (2008). The data for culture dimensions were obtained from Hofstede's personal website where he provides culture dimension scores for academic research purposes.

4.2.3. Control Variables

Parent firm R&D intensity

Parent firm's R&D intensity was controlled since it has been used commonly as a proxy of firm asset specificity and techonolgy assets that could be subject to high transaction costs in case of joint ventures (Gatignon & Anderson, 1988; Hennart, 1991; Hennart & Larimo, 1998). Each parent firm's R&D spending was identified from KIS-VALUE database and then R&D intensity was measured by dividing the R&D spending by the total sales of parent firms.

Advertisement intensity

Advertisement intensity of the parent firm has been widely used to measure the extent of goodwill assets and marketing experience transferred to subsidiaries (Hennart, 1991). Parent firms' advertisement spending was obtained from KIS-VALUE database and advertisement intensity was measured by dividing the advertisement spending by parents' total sales.

Firm size

Firm's resources may influence its subsidiary mode selection where large firms preferring full control mode of entry (Agarwal & Ramaswami, 1992). According to Erramilli & Rao (1993), larger firms usually have more resources that can be utilized in new markets, hence larger firms would prefer full-control entry modes over partial control entry modes. Firm's assets were obtained from KIS-VALUE database and in the analysis, natural logarithm of the assets was used.

Multinational Experience

In prior research on entry mode, multinational experience is reported to influence firm's choice of entry mode. Firms with greater multinational experience prefer wholly owned subsidiaries over joint ventures when investing overseas (Agarwal & Ramaswami, 1992; Erramilli, 1991). In previous studies on entry mode, both region specific experience and overall international experience have been used (Brouthers & Brouthers, 2001, Kogut & Singh, 1988). Likewise, this study employed both international experience and region-specific experience. International experience was measured by subtracting the year of a firm's first business overseas from the entry year of the case under observation and region-specific experience was based on the number of prior operation years in host countries. The data concerning the entry year and first overseas entries were both identified from 2016 Overseas Korean Business Directory.

Subsidiary age

According to Hennart (1991), as joint ventures age they could be terminated by dissolution or acquisition by one of the partners. Since the sample used in this study is an observation of subsidiaries in year 2016, older subsidiaries might have been terminated or acquired by one of the partners and thus the sample has a tendency for a subsidiary to be wholly owned as it ages. Following Hennart (1991), subsidiary age was measured by subtracting entry year from the observation year 2016.

GDP per capita

In this study, GDP per capita of each host country is controlled as a proxy to measure the country's level of economic development. This study used natural logarithm of Gross Domestic Product (GDP) per capita of each host country in year 2016 (Beollis et al., 2016; Bae & Lee, 2011; Musteen et al., 2009; Chan & Makino, 2007; Chung & Beamish, 2005).

4.3 Model

The dependent variable in this research is dichotomous variable where joint venture is coded 0 and wholly owned subsidiary is coded 1. Hence, binomial logistic regression is used to show the impact of independent variables on the dependent variable, the entry mode choice. Probability of a firm choosing a wholly owned mode of entry can be expressed as follows:

$$P(Y=1) = 1/[1 + exp^{-(a+x_i b)}]$$

Where, Y : Dependent variable

x : Vector of independent variables of the logit regression

b : Vector of coefficients of the logit regression

a : Intercept parameter

Chapter 5: Results

Correlations of the variables are presented in <Table 1>. Correlation matrix of the independent variables indicates a high collinearity between power distance difference and individualism difference (−.795). However, the variance inflation factor (VIF) values of both variables are low, not exceeding value of 10 (VIF value of power distance difference: 3.119; Individualism difference: 3.335). Therefore, it was assumed acceptable to test logistic regression with listed variables in this research. In other variables, multicollinearity issue was generally not raised.

The results of the binomial logistic regression are presented in <Table 2>. The model has a high explanatory power with a chi-square value of 50.138 (p = 0.000). The classification table of the model also suggests a high classification rate with 87.1% correctly classified observations.

As the measurement of separate cultural dimensions (power distance; individualism; masculinity; uncertainty avoidance) in a lieu of composite index has enabled a positive or negative coefficient reading for each cultural dimension, a positive coefficient in the regression result means that, for example, when individualism culture dimension of the host country is higher (lower) than the culture dimension of the home country, the probability of a firm choosing wholly owned mode of entry is increasing (declining).

Hypotheses 1b, testing the effect of asymmetric property of the cultural distance of individualism, was supported. Other independent variables including power distance, masculinity and uncertainty avoidance differences were not significant in the result and had no impact on the entry mode choice in the sample used in this research.

To visualize the marginal effect of the individualism has on the probability of having 1 (wholly owned modes of entry), following equations are used:

<Equation 1>

$$P_i = \frac{e^{xb}}{e^{xb}+1} = \frac{1}{1+e^{-xb}}$$

Where, P : Probability of having 1 (wholly owned subsidiary)

x : Vector of independent variables of the logit regression

b : Vector of coefficients of the logit regression

<Table 1> Descriptive statistics and correlations

Variables	Mean	*s.d*	1	2	3	4	5	6	7	8	9	10	11
1. Entry Mode	0.87	0.34											
2. PD_A	5.44	19.43	$-.111^{**}$										
3. IDV_A	25.23	26.8	$.153^{**}$	$-.795^{**}$									
4. MAS_A	19.75	16.38	$.101^{**}$	−0.029	$.113^{**}$								
5. UA_A	−34.46	23.64	0.064	$-.189^{**}$	$.253^{**}$	$.085^{*}$							
6. RD_INTEN	1.7	2.74	0.023	$-.113^{**}$	$.113^{**}$	−0.062	$.115^{**}$						
7. ADV_ITEN	0.99	1.52	0.038	$-.073^{*}$	0.056	0.028	$.086^{**}$	$.070^{*}$					
8. LN_Asset	29.22	2.1	−0.047	$-.114^{**}$	$.165^{**}$	−0.042	$.248^{**}$	$.448^{**}$	0.041				
9. EXP	13.23	13.77	0.009	−0.007	0.022	$-.114^{**}$	$.157^{**}$	$.537^{**}$	−0.006	$.642^{**}$			
10. Region EXP	2.48	5.68	0.03	0.059	−0.026	$.089^{**}$	$-.129^{**}$	$.098^{**}$	0.019	$.233^{**}$	$.380^{**}$		
11. Sub_age	14.71	8.91	0.035	$-.138^{**}$	$.116^{**}$	$.116^{**}$	0.034	$.122^{**}$	$.113^{**}$	$.159^{**}$	$-.236^{**}$	$-.182^{**}$	
12. LN_GDP_per_capita	9.39	1.12	$.161^{**}$	$-.695^{**}$	$.727^{**}$	$.290^{**}$	$.269^{**}$	$.103^{**}$	$.127^{**}$	$.135^{**}$	−0.017	0.021	$.207^{**}$

**: p<0.01 ; *: p<0.05

N=906

PD_A= Power distance difference; IDV_A= Individualism difference; MAS_A= Masculinity difference UA_A=Uncertainty avoidance difference; R&D_INTEN=R&D intensity; ADV_INTEN=Advertisement intensity; EXP=International experience; Region_EXP=Region−specific experience; Sub_age=Subsidiary age; LN_GDP_per_capita=Natural logarithm of GDP per capita of host countries in 2016

<Table 2> Binomial logistic regression result

IJV = 0 ; IWOS = 1	
Variables	Coefficient
PD_A	.006 (.010)
IDV_A	.020*** (.008)
MAS_A	.012 (.008)
UA_A	.005 (.005)
RD_INTEN	.002 (.049)
ADV_ITEN	.047 (.079)
LN_Asset	−.293*** (.074)
EXP	.029** (.013)
Region_EXP	.032 (.025)
SUB_AGE	0.028* (.015)
GDP per capita	.181 (.139)
Constant	−7.487*** (2.34)
N	906
Model Chi−square	50.138***
−2 Log likelihood	647.023
Percentage correct	87.1
R square	.100

***: p<0.01 ; **: p<0.05 ; *: p<0.10
Standard error in parentheses

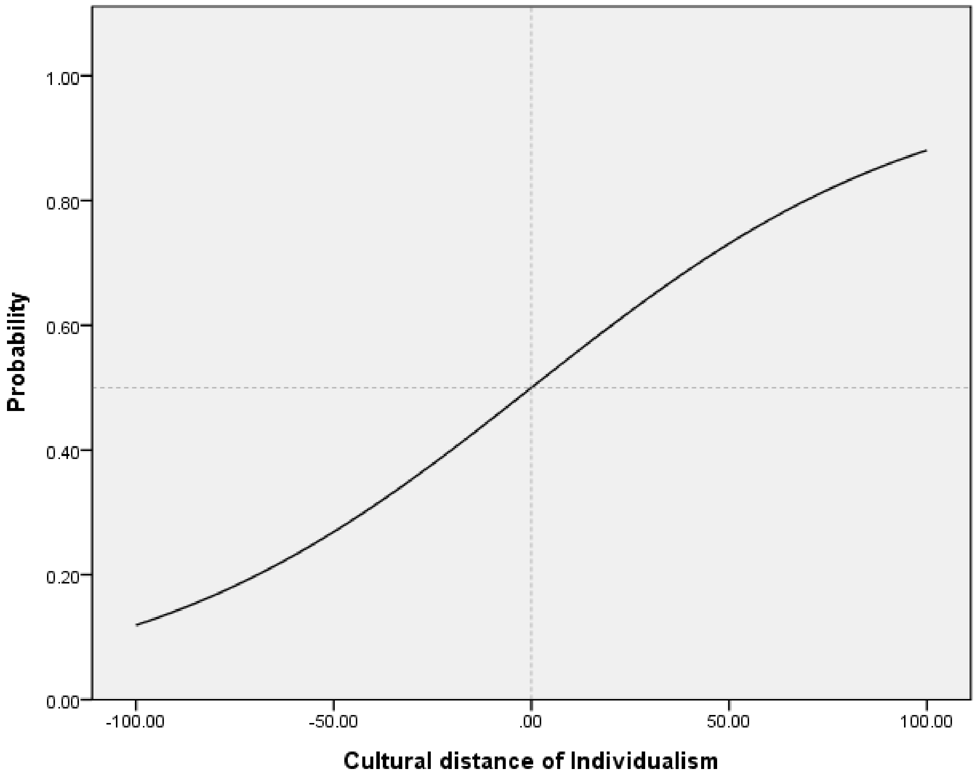
<Equation 2>

$$P_i = \frac{1}{1 + e^{-0.020\mathrm{x}(Cultrual\ distance\ of\ individualism)}}$$

<Equation 1> shows how the coefficient indicate the probability of a firm's choice of entry mode and <Equation 2> shows the results of the effect of individualism on the entry mode choice.

The result of the <Equation 2> is shown in <Figure 1>. Y axis represents the marginal effect on selection of wholly owned modes of entry probability (from 0 to 1) and X axis is the cultural distance of individualism for the values that are extended from −100 to 100. The graph suggests that if the host country individualism is greater than the home country individualism level (cultural distance is positive), then the marginal effect on the probability of investing firms choosing wholly owned modes of entry increases; and when the host country individualism is lower than the home country individualism level (cultural distance is negative), the likelihood of investing firms choosing wholly owned modes of entry falls.

<Figure 1> Cultural distance of individualism and its effect on the probability of a firm choosing a wholly owned mode of entry



For control variables, both R&D intensity and advertisement intensity came out to be insignificant. Parent firm asset was significant under 1% significance level. The positive coefficient suggests that firms with larger assets are more likely to choose joint venture over wholly owned subsidiary. For multinational experience, overall international experience was significant under 5% significance level and the positive sign indicates that more experienced firms would choose wholly owned subsidiary over joint venture. However, region specific experience resulted insignificant and did not have influence on entry mode choice in this sample. Subsidiary age was significant under 10% significance level suggesting that the length of operation in the host country did affect the mode of entry in the sample which indicates that a subsidiary is more likely to become a wholly owned subsidiary as its operating years increase.

Chapter 6: Discussion, Limitations and Future Research

6.1 Discussion

This research intended to demonstrate the impact of cultural distance's asymmetric property on a firm's choice of entry mode. The contributions of this research come from: (1) the delineation of theoretical foundation for investing firm's different perception of level of potential opportunism in host country according to its relative position of cultural dimension scores compared to home country scores; (2) use of alternative measurement of cultural distance in entry mode studies.

Cultural distance has been used widely by many researchers as a proxy for uncertainty in study of entry mode without questioning its validity as a correct measurement of cultural distance. By employing alternative measure of culture in a lieu of a composite index developed by Kogut & Singh (1988), this article made predictions of different entry modes a firm may prefer when host country culture dimension value was either higher or lower compared to that of home country. Power distance, individualism, masculinity and uncertainty avoidance dimensions were used individually and for each dimension transaction cost theory was used to explain the different likelihood of opportunism an investing firm may perceive in host countries.

The result of this article supports the view that individual cultural dimensions can independently affect a firm's mode of entry. Moreover, the result also provides evidence for the asymmetric property of cultural distance. Although not all dimensions survived in the analysis, individualism was significant and had an influence on the choice of entry mode in the sample used in this article. The result suggests that among the four cultural dimensions, individualism affects Korean MNE's choice of entry mode and, more specifically, indicates that when entering countries that are more individualistic than Korea, the parent prefers full control of its subsidiaries in a fear of partner's opportunistic behaviours. Likewise, when expanding to countries that are less individualistic than Korea, Korean MNEs prefers partial ownership of their subsidiaries as they perceive low likelihood of opportunism in such countries.

The result of this research has found support for several control variables on firm's entry mode choice. To begin with, parent firm's asset was significant suggesting that larger firms preferring joint venture when investing overseas. This result follows the prior research on entry mode that larger firms have a propensity to enter foreign markets through shared equity ventures (Hennart & Larimo, 1998). As larger firms tend to be more diversified, they may prefer joint venture with local partner to obtain access to desired assets in the local markets (Hennart & Larimo, 1998). A firm's overall international experience was also significant in the result. The positive coefficient suggests that as firms are more experienced, they are more likely to choose wholly owned mode of entry over joint venture. This result follows the prior research that firms with larger experience tend to prefer full-control over their overseas subsidiaries as prior international entry experience reduces the risk and cost of foreign expansions (Erramilli, 1991). Although result of this article had a support for overall international experience, no support for region specific experience was obtained. Lastly, the impact of subsidiary age was supported in the result. The result suggests that as a subsidiary gets older, the probability of becoming a wholly owned subsidiary increases. According to Hennart (1991), as operation years increase, parent firms get more experienced and acquire knowledge of host country environments and as a result tends to find the presence of the partner less useful.

6.2 Limitations and Future Research

This research has several limitations. First, only limited number of host countries was available for the cultural dimensions in Hofstede's data and therefore many entries made by Korean MNEs are excluded from the sample used in this study. There is a probability that the findings regarding cultural differences could be different when all the entries made by Korean MNEs were included in the sample.

Second, since our sample is consisted with only one source country, there could be an issue of single-country sample problem. Many researchers criticize that when distance is measured between one home country and varying host countries or varying home countries and one host country, it is difficult to determine whether findings are due to distance effects or country-level effects (Estrin et al., 2009). For example, since Korea is high in both power distance and uncertainty avoidance, there could be a tendency for Korea to prefer wholly owned subsidiaries over joint ventures as literature suggests, investing firms from high power distance and uncertainty avoidance countries tend to prefer wholly owned subsidiaries when investing overseas (Hennart & Larimo, 1998).

To solve above listed limitations, future studies should use multiple home country and multiple host country samples. In doing so, the distance measure could have more accurate impact on the entry mode choice and furthermore, the distance measure would become more appropriate in testing asymmetric property of the cultural distance construct.

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국 문 초 록

문화적 거리의 비대칭성이 기업의 해외시장진입방식에 미치는 영향

국제경영 연구에서 문화적 거리 개념은 기업의 해외시장진입방식을 예측하는 변수로 활용되며 널리 사용되어왔으나, 홉스테드의 네 가지 문화차원들을 절대값으로 측정하는 기존 방식은 국가 간 문화 차이를 정확히 반영하지 못한다는 한계가 지적되어왔다.

이에 본고에서는 기존 연구에서 사용된 문화적 거리 개념 측정 방식과 차별화된 문화적 거리의 비대칭적 효과를 검증을 통해 분석하였다. 구체적으로 본고는 문화적 거리를 구성하는 문화차원들을 개별적으로 차용하여 차원 별 거리를 측정하였으며, 문화적 거리의 양과 음의 값을 각각 구하였다. 이 방법을 통해 본고는 모기업의 국가가 진출 국가보다 문화차원 지수가 높거나 낮을 경우에 해당 기업이 선택하는 진입 방식이 다를 것이라는 가설을 증명하였다.

본고에서는 문화적 차이가 진입 방식에 미치는 영향을 거래비용 이론을 통해 설명하였다. 문화적 거리의 비대칭적 효과를 검증하기 위하여 홉스테드의 문화차원들을 연구에 개별 적용하였다. 구체적으로 기존의 문화적 거리 측정에 사용된 네 가지 문화차원인 권력간 거리, 개인주의 성향, 남성주의 성향 그리고 불확실성 회피 성향이 본고에 사용되었으며 각 차원의 비대칭적 효과가 기업의 해외자회사 소유구조 전략에 미치는 영향을 분석하였다.

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주요어:
문화적 거리, 문화적 차원, 문화적 거리의 비대칭성, 해외시장진입방식

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